

Press Release

Rajasthan State Road Transport Corporation

July 15, 2021



Rating Upgraded and Removed from rating watch; Withdrawn

Total Facilities Rated*	Rs.375.00 Cr
Total Non-Convertible Debenture Rated	Rs.175.00 Cr
Long Term Rating	ACUITE BBB-(CE [^])/Outlook: Stable (Upgraded from BB+ (CE [^]) and removed from rating watch)
Total Bank Facilities Rated	Rs.200.00 Cr
Long Term Rating	ACUITE BBB- (Upgraded from BB+(CE [^]) and withdrawn)

* Refer Annexure for details

[^]Credit Enhancement in the form of Guarantee from Government of Rajasthan

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB- (CE)** (read as ACUITE triple B minus (Credit Enhancement)) from '**ACUITE BB+ (CE)** (read as ACUITE double B plus (Credit Enhancement)) on the Rs. 175.00 Cr Non-Convertible Debenture (NCD) issue of Rajasthan State Road Transport Corporation (RSRTC). The rating is removed from '**Under Watch with Negative Implications**' and the outlook is '**Stable**'.

Acuité has also upgraded and withdrawn the long term rating to '**ACUITE BBB-** (read as ACUITE triple B minus) from '**ACUITE BB+ (CE)** (read as ACUITE double B plus (Credit Enhancement)) to the Rs. 200.00 Cr proposed bank loan facility of Rajasthan State Road Transport Corporation (RSRTC). The rating withdrawal is on account of the request received from corporation and is in accordance with Acuité withdrawal policy.

Rationale for rating upgrade

Acuité has taken into account the recent developments in RSRTC in terms of successful refinancing activity which has facilitated the partial redemption of second tranche of bonds of Rs. 311.80 Cr and Rs. 188.20 Cr, due on November 01, 2020 and July 17, 2020 respectively. The rating upgrade also factors in an expected improvement in the liquidity position of the corporation by maintaining adequate sanctioned and undrawn bank lines commensurate with its maturing debt repayment obligations.

The settlement of the overdue NCD repayments was funded through term loans of Rs.200.00 Cr from existing lenders and the corporation has also availed additional Rs.200.00 Cr of term loans which will be utilised for the upcoming repayments of NCDs. The undrawn term loan limits provides cushion for repayments up to July 2022. Acuité has noted that both the term loans are backed by guarantee provided by the State Government of Rajasthan. Further, it also understands that such loans will be exclusively used for repayments of the outstanding NCDs.

The corporation has demonstrated the ability to successfully alter its liability profile by refinancing the outstanding NCDs and has been able to clear all dues before the extended period, i.e. 01 May 2021 provided by the trustee and the investors. The refinancing has done at lower rate when compared with NCDs, which is likely to provide some additional liquidity buffer in the form of lower interest outgo.

Acuité has also noted that RSRTC is servicing interest on all NCDs in timely manner and has made funds available in escrow account as per T-10 structure for upcoming repayments due on July 17, 2021. However, the rating remains constrained by the ongoing challenges faced by the corporation in maintaining a stable business risk profile and steady operating cash flows due to the continuing impact of the Covid pandemic.

About Company

Rajasthan State Road Transport Corporation (RSRTC) was incorporated in 1964 under the Road Transport Act 1950 with the objective of providing economic, adequate, punctual and efficient transportation services to the people in Rajasthan. Currently, as on March 31, 2021, ~3492 own buses and ~864 hired buses across 56 depots are plying more than 7.55 lakhs kilometers per day and carrying more than 3.25 lakh passengers per day.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of RSRTC and notched up the rating by factoring in Credit Enhancement in the form of Guarantee extended by Rajasthan State Government for the rated NCD issue.

Standalone (Unsupported) Rating:

ACUITE BB/Stable (Reaffirmed)

List of key rating drivers and their detailed description:

Strengths

• Criticality of RSRTC to the state and demonstrated support from the Government of Rajasthan (GoR)

The public road transport system in the state of Rajasthan is significantly dependent on RSRTC. Its large fleet of over 4500 buses is key towards maintaining intra and inter-state connectivity in Rajasthan. Further, RSRTC is also one of the largest government employers in the state of Rajasthan – employing more than 14,000 permanent employees. RSRTC is wholly owned by the Government of Rajasthan (GoR) and is a statutory body incorporated under the State Transport Corporation Act of 1950. Any disruption or failure in RSRTC's operations can have a massive political and socio-economic implication for the GoR. Acuité, therefore believes that RSRTC holds a fairly high strategic importance for GoR. Further, the high moral obligation to support the entity is reflected in the availability of an unconditional and irrevocable guarantee from GoR to the bondholders of RSRTC. Also, GoR has extended its guarantee to the newly availed term loans for refinancing of its NCDs. Acuité believes that RSRTC with established market position, strategic importance to GoR in road transportation, long track record of over two decades and continuous support from state government will benefit the corporation over the long term.

• Presence of the Structured Payment Mechanism

The structured payment mechanism as enshrined in the trust deed, Assuming T is the due date for payment, the following timelines are expected to be followed:

- At T-10 days: The issuer will credit the requisite fund in TRA for the servicing of bondholders on the forthcoming due date 'T' or put them in Fixed Deposit(FD) with a designated bank and ensure the FD are liened in favor of the trustees. There should be a communication mechanism in place to ensure the flow of information related to the presence of funds in TRA to State Government and Trustees. In case, the issuer does not deposit the funds into the TRA, the issuer shall communicate by T-10 days, in writing to the Financial Secretary and/or designated official in state machinery with a copy of the same to the trustee and the credit rating agency. The issuer shall also request the state government to ensure that adequate clear funds are available in the TRA for servicing obligations on the bonds on the due date 'T'.
- At T-7 days: In case of failure of intimation to the State government by the issuer, the trustee shall intimate the State Government at least 7 calendar days prior to the forthcoming due date.
- At T-4 days: The trustee shall ensure the transfer of funds from matured FDs to TRA
- In the event of state government failing to transfer clear funds in the TRA to make up the shortfall by T-4 working days, the trustee will forthwith invoke the guarantee issued by the state government and inform the credit rating agency about the same.
- On invocation of guarantee, the state government must promptly deposit clear funds, to the extent of shortfall, into the TRA prior to the due date. The rating factors in adherence to the above structured payment mechanism, which will continue to be administered by the trustees to the NCD.

Further, GoR has also extended guarantee to term loans availed from lenders for refinancing of the NCDs.

Weaknesses

• Continuing losses and weak financial risk profile

The corporation has reported total income (including other income) of Rs. 2,055.40 Cr for FY2020 (Provisional) as against Rs.2162.41 Cr for FY2019 and Rs.2193.36 Cr for FY2018. Further, the corporation has reported operating income of Rs. 2,034.66 crores for FY2020 (Provisional) as against Rs.2138.07 crore for FY2019 and

Rs.2170.45 crore for FY2018. The decline is due to nationwide lockdown imposed from March 2020 and impact of pandemic. There was also deterioration in EBITDA to Rs. (50.67) Cr in FY2020 (Provisional) due to fixed cost, reduced subsidy due to decline in revenues as against improvement seen in EBITDA levels in FY2019 on account of reduction in fuel and employee cost. The corporation continued to report PAT losses of Rs. (151.88) Cr in FY2020 (Provisional) as against Rs. (75.93) Cr FY2019 as against Rs. (115.06) Cr for FY2018. The total income (including other income) is estimated to be at Rs. 1390.33 Cr. and operating income to be at Rs. 1,366.09 Cr and PAT loss to be at Rs. (124.33) for FY2021 (Estimates). The operations were severely impacted by pandemic and nationwide lockdown in FY2020 & FY2021 resulting in deterioration in overall operating performance.

The financial risk profile continues to be weak marked by negative tangible net worth of Rs. 3,155.65 Cr as on March 31, 2020 (Provisional) as against Rs.3537.03 Cr as on March 31, 2019. This is mainly on account of revaluation reserves of Rs. 7,257.68 Cr as March 31, 2020 (Provisional) as against Rs.7258.28 Cr as on March 31, 2019. The total debt of Rs. 1,456.62 Cr as on March 31, 2020 (Provisional) consists mainly of NCDs of Rs.675 Cr (Rs.500 Cr + Rs.175 Cr) and rest loans from banks and state government bodies. The debt protection metrics and coverage indicators also stood weak due to continuous losses incurred in past and negative cash accruals.

The operations of the corporation have been severely impacted on account of the ongoing COVID – 19 crisis and the corporation was relying mainly on grants and interest free loans from the GoR to manage its fixed costs and overheads. The corporation has also refinanced these redemptions by taking a term loan of Rs.200 Cr and has been successful to pay off the dues on March 26, 2021. There are dues outstanding as on date in the books of corporation. The corporation has also availed additional term loan of Rs.200.00 Cr for repayment of these NCDs, providing timely repayment visibility till July 2022 as per corporation.

Rating Sensitivities

- Timely arrangement of funds for redemption of NCDs
- Improvement in credit profile of Rajasthan Government and timely support to RSRTC
- Improvement in the operational matrices and financial risk profile

Material Covenants

None

Assessment of Adequacy of Credit Enhancement

None

Liquidity Position: Stretched

RSRTC has a stretched liquidity position on a standalone basis on account of continuous losses. However, its liquidity position is supported by strong operational and financial support from the Government of Rajasthan. The corporation has been able to access bank term loans for repayment of NCDs and is also dependent on state government grants for managing the liquidity. Acuité, expects a moderate improvement in the liquidity position and its cash flow from the easing of lockdown in Rajasthan. Also, Acuité draw comfort from the undrawn portion of term loans of Rs.250 Cr available for timely servicing of NCDs.

Outlook: Stable

Acuité believes that the outlook on RSRTC's rated facilities will remain 'Stable' over the medium term given the availability of term loans for refinancing of the maturing NCDs, the adherence to the structured payment mechanism and the expectation of support from GoR. The outlook may be revised to 'Positive' in case the company registers a significant improvement in its profitability and cash generation ability or in case of an improvement in the credit profile of GoR. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the credit metrics of GoR as well as that of the corporation.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2,034.66	2,138.07
PAT	Rs. Cr.	(151.88)	(75.93)
PAT Margin	(%)	(7.46)	(3.55)
Total Debt/Tangible Net Worth	Times	(0.46)	(0.38)
PBDIT/Interest	Times	(0.38)	0.73

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Nov-2020	Non-Convertible Debentures	Long term	175.00	ACUITE BB+ (CE) (Under Watch with Negative Implications)
	Proposed Term Loan	Long term	200.00	ACUITE BB+ (CE)/Stable (Assigned)
10-Nov-2020	Non-Convertible Debentures	Long term	175.00	ACUITE BB+ (CE) (Downgraded; Under Watch with Negative Implications)
25-Aug-20	Non-Convertible Debentures	Long term	175.00	ACUITE BBB (CE) (Downgraded; Under Watch with Negative Implications)
04-May-20	Non-Convertible Debentures	Long term	175.00	ACUITE A (CE) /Stable (Reaffirmed)
06-May-19	Non-Convertible Debentures	Long term	175.00	ACUITE A (CE) /Stable (Reaffirmed)
04-May-18	Non-Convertible Debentures	Long term	175.00	ACUITE A (CE) /Stable (Upgraded)
18-Oct-16	Non-Convertible Debentures	Long term	175.00	ACUITE BB /Stable (Downgraded)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB- (Upgraded from ACUITE BB+ and Withdrawn)

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
INE700N08015	Non-Convertible Debentures (NCDs)	20-Feb-2014	10.25%	20-Feb-2024	175.00	ACUITE BBB- (CE ^A)/Stable (Upgraded from BB+ (CE ^A) and removed from rating watch)

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About Acuité Ratings & Research:

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